

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 FEA-01 ERDA-05
AID-05 CEA-01 CIAE-00 COME-00 DODE-00 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
PA-01 PRS-01 /121 W

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R 030943Z AUG 77
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 8683
INFO AMEMBASSY ABU DHABI
AMCONSUL DHAHRAN
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBSSY LONDON
AMEMBASSY TOKYO
USINT BAGHDAD

C O N F I D E N T I A L KUWAIT 4339

E.O. 11652: GDS
TAGS: ENRG, KU, OPEC
SUBJECT: REPORTED GOK INTENTION TO NATIONALIZE HOLDINGS OF THREE
FOREIGN OIL COMPANIES

REF: (A) KUWAIT 4277 (NOTAL), (B) 76 KUWAIT 2355 (NOTAL),
(C) 76 STATE 081210

1. SUMMARY. OIL MINISTER KAZIMI DENIES PRESS REPORT THAT
KUWAIT IS NATIONALIZING GETTY OIL COMPANY AND ARABIAN OIL
COMPANY, A JAPANESE CONCESSIONAIRE WITH SAUDI AND KUWAITI
PARTICIPATION. HOWEVER, NEGOTIATIONS ARE CONTINUING ON
POSSIBLE TAKEOVER OF AMERICAN-OWNED OIL COMPANY IN KUWAIT,
AMINOIL, WITH NEXT MEETING LIKELY TO BE HELD IN LATE AUGUST
OR SEPTEMBER. KUWAITI POSITION ON AMINOIL TAKEOVER CONTINUES
TO BE OFFER OF NET BOOK VALUE AND POSSIBLE MARKETING CONTRACT
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FOR FUTURE OIL PURCHASES. AMBASSADOR REMINED MINISTER OF
LONG-STANDING USG POLICY SUPPORTING PAYMENT OF FAIR-
MARKET VALUE FOR EXPROPRIATED PROPERTY. END SUMMARY.

2. KUWAIT PRESS AUG. 1 AND 2 HAS CARRIED STORY THAT OIL
MINISTER KAZIMI TOLD SAUDI ARABIAN NEWSPAPER AL-BILAD THAT
KUWAIT HAD REACHED FINAL AGREEMENT ON THE TAKEOVER OF THREE

FOREIGN-OWNED OIL COMPANIES OPERATING IN KUWAITI TERRITORY,
AMERICAN FIRMS AMINOIL AND GETTY OIL, AND JAPANESE
ARABIAN OIL CO. (AOC).

3. IN MEETING WITH AMBASSADOR AUG. 2, KAZIMI DENIED
REPORT, SAYING THAT "INEXPERIENCED" REPORTER FROM AL-BILAD
HAD GOTTEN THE STORY WRONG. AS WAS WELL KNOWN, HE SAID,
GETTY OIL HAS A SAUDI CONCESSION AND THEREFORE KUWAIT
WOULD NOT BE INVOLVED IN TAKING IT OVER. AS FOR THE
ARABIAN OIL CO., IT IS A JOINT ARRANGEMENT BETWEEN SAUDI
ARABIA AND KUWAIT. THERE WERE NO PLANS TO TAKE OVER AOC
AT THIS TIME, HE SAID. IF THERE WERE ANY PLANS TO TAKE
OVER AOC IN THE FUTURE, KUWAIT WOULD HAVE TO CONSULT
WITH SAUDI ARABIA.

4. ON AMINOIL THE MINISTER SAID IT WAS THE AMERICAN
COMPANY, NOT THE GOK, WHICH HAD SAID "I WANT TO QUIT."
THIS APPARENTLY WAS THE RESULT OF THE DECISION OF
REYNOLDS INDUSTRIES WHICH HAD BOUGHT AMINOIL. AMBASSADOR
SAID HE UNDERSTOOD THIS PROPOSAL WAS OFFERED BY AMINOIL
BECAUSE OF GOK INSISTENCE OF AN EXCESSIVE SHARE OF THE
PROFITS, WHICH THE COMPANY FELT WAS UNACCEPTABLE.
MINISTER THEN REVIEWED AMINOIL NEGOTIATIONS, GOING OVER
VARIOUS OFFERS AND COUNTEROFFERS REPORTED PREVIOUSLY.
HE SAID THAT KUWAIT WAS PREPARED TO GIVE AMINOIL A 22
CENT PER BARREL DISCOUNT ON ITS OIL IN RETURN FOR
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THE \$79 MILLION IN PROFITS WHICH AMINOIL HELD IN ITS
ACCOUNT AS A RESULT OF ITS OPERATIONS IN KUWAIT SINCE
1975. KAZIMI NOTED THAT GOK HAD NOT WANTED TO TAKE OVER
AMINOIL AT THIS POINT, BUT ADMITTED THAT, IN VIEW OF
KUWAIT'S POLICY TO NATIONALIZE ITS OIL RESOURCES, THIS
WAS JUST A MATTER OF TIME, PERHAPS 5 YEARS OR SO, ANYWAY.
IF THE COMPANY WERE TO BE TAKEN OVER NOW, HOWEVER, GOK
WOULD NOT WANT AMINOIL TO MANAGE THE COMPANY UNDER A
SERVICE CONTRACT, BUT WOULD BE AGREEABLE TO AN ARRANGE-
MENT UNDER WHICH AMINOIL WOULD DO THE MARKETING. THE
OTHER POINT OF DISCUSSION HE SAID WAS THE VALUE OF THE
COMPANY'S ASSETS. AMINOIL HAD ASKED FOR \$48 MILLION.
HE COULD NOT ACCEPT THIS BECAUSE "EVERYONE WOULD SAY
THE OIL MINISTER WAS A NUT," SINCE KUWAIT HAD ONLY PAID
GULF AND BP \$50.5 MILLION IN THEIR FINAL SETTLEMENT IN
THE TAKEOVER OF THE KUWAIT OIL CO.

5. AMBASSADOR POINTED OUT THAT (1) AMINOIL'S ASSETS
WERE INSURED FOR OVER \$100 MILLION, (2) GULF OIL HAD
NOT BEEN HAPPY WITH BOOK VALUE SETTLEMENT, BUT HAD
ACCEPTED IT BECAUSE OF ITS LONG TERM INTEREST IN
ASSURING A LARGE VOLUME SOURCE OF CRUDE SUPPLY.

(500,000 B/D). AMINOIL'S POSITION WAS QUITE DIFFERENT BECAUSE OF ITS LOWER PRODUCTION (90,000 B/D) AND INFERIOR QUALITY OF HEAVY CRUDE. WITH RESPECT TO ASSET VALUATION, AMBASSADOR POINTED OUT THAT THE EMBASSY HAD APPRISED THE FOREIGN MINISTRY AND OIL MINISTRY UNDER-SECRETARY ADASANI OF USG POLICY CONCERNING THE VALUATION OF EXPROPRIATED PROPERTY. THE USG DOES NOT REGARD PAYMENT OF BOOK VALUE AS FAIR AND EQUITABLE METHOD OF SETTLEMENT. RATHER IT IS THE LONG-STANDING AND CONTINUING USG POSITION THAT INTERNATIONAL LAW REQUIRES PAYMENT OF FAIR MARKET VALUE FOR EXPROPRIATED PROPERTY. AMBASSADOR POINTED OUT THAT, IN OUR PRESENTATION OF THIS US POLICY POSITION, TO ADASANI, (REF B) WE HAD SPECIFICALLY ALLUDED TO ITS POSSIBLE APPLICATION TO

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AMINOIL SHOULD THE GOK DECIDE TO TAKE OVER THAT COMPANY'S ASSETS. SINCE A COPY OF OUR POLICY STATEMENT MIGHT NOT BE AVAILABLE TO THE MINISTER, HE PROMISED TO SEND THE MINISTER A TEXT OF THIS POLICY (REF C). AMBASSADOR ALSO NOTED THAT USG, AS STATED IN THIS POLICY, RESERVES THE RIGHT TO INSIST ON EQUITABLE COMPENSATION FOR EXPROPRIATED ASSETS, REGARDLESS OF POSITION TAKEN BY THE COMPANY, ALTHOUGH, IN PRACTICE, USG WAS UNLIKELY TO INTERVENE IF ARRANGEMENT SATISFACTORY TO COMPANY WAS REACHED.

6. IN RESPONSE, KAZIMI SAID THAT THE INSURANCE VALUATION FOR AMINOIL'S ASSETS WAS, OF COURSE, HIGHER THAN THE BOOK VALUE AND THAT MINISTRY HAD IN FACT ENCOURAGED THE COMPANY TO DO THIS. THE MINISTRY WAS WORKING ON THE QUESTION OF THE VALUE OF THE COMPANY'S ASSETS AND WOULD LIKE TO KEEP UP THE GOOD RELATIONSHIP IT HAD WITH THE COMPANY. IN FACT HE SAID HE HAD BEEN QUITE SURPRISED BY AMINOIL'S SUGGESTION OF IMMEDIATE TAKEOVER SINCE HE HAD RECOMMENDED TO HIS GOVERNMENT THAT IT NOT CONSIDER SUCH ACTION FOR AT LEAST FIVE OR SIX YEARS.

7. MINISTER SAID HE WAS NOT SURE WHEN NEXT MEETING WITH AMINOIL WOULD TAKE PLACE, BUT THOUGHT THAT TWO SIDES WOULD PROBABLY MEET IN SEPTEMBER. ACTING AMINOIL MANAGER TOLD US AUGUST 2 THAT COMPANY IS WORKING ON A PROPOSAL REGARDING ASSETS TO BE PRESENTED TO THE MINISTRY IN THE NEXT WEEK. MEETING MAY TAKE PLACE BETWEEN TWO SIDES AT END OF AUGUST HE SAID, PERHAPS OUTSIDE OF THE COUNTRY.

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Message Attributes

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